



De Minimis Indirect Cost Rate Guidance

This guidance highlights areas of compliance typically required of recipients of federal assistance awards. It is not intended to fully document all requirements of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards in 2 CFR Part 200 or 2 CFR Part 910.

What is the De Minimis Indirect Cost Rate?

The de minimis indirect cost rate (de minimis ICR) is 10% of an organization's Modified Total Direct Costs (MTDC). First, an eligible organization may elect to use the de minimis ICR as their indirect cost method instead of a negotiated indirect cost rate agreement. The de minimis ICR is described in [2 CFR § 200.414\(f\)](#) and applied by DOE to for-profit recipients through [2 CFR § 910](#).

MTDC is an allocation base that includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the subaward's period of performance under the award). Accordingly, any organization using the de minimis ICR must first calculate its MTDC (i.e., add up all eligible components of modified total direct costs) and then multiply by 10% to calculate the amount of allowable indirect costs.

Who should use the De Minimis Indirect Cost Rate?

The de minimis ICR is a less burdensome option for organizations new to managing Federal funds or organizations that want to reduce the risk associated with negotiating an indirect cost rate. OCED recipients and selectees who are negotiating DOE awards for the first time may prefer to choose this simpler approach after weighing the advantages and disadvantages, discussed below.

Who can use the De Minimis Indirect Cost Rate?

Non-governmental entities that do not have an active, negotiated indirect cost agreement can elect to use the de minimis rate. However, state and local governments with more than \$35M in direct Federal funding cannot use the de minimis ICR.

In the past, an organization that previously had a negotiated indirect cost rate was precluded from electing to use the de minimis ICR, but this is no longer an eliminating factor. After 2020 revisions to the Uniform Guidance, a non-governmental entity that previously had a negotiated indirect cost rate, but no longer does, can now use the de minimis ICR instead of negotiating a new rate.

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What are the Advantages of Using the De Minimis Indirect Cost Rate Compared to Negotiating a Rate?

Using the de minimis ICR decreases the administrative burden and costs associated with proposing and negotiating indirect cost rates; a benefit to both the recipient and the Federal government. Similarly, the indirect rate proposal preparation and negotiation process can potentially delay the award negotiation timeline. After award, using the de minimis ICR may help recipients reduce uncertainty in their indirect cost recovery. Finally, using the de minimis ICR does not preclude an organization from applying to negotiate a rate in the future, although the de minimis ICR can be used indefinitely by all eligible organizations.

Administrative Burden and Associated Costs: The development and submission of indirect cost rate proposals and cost allocation plans can be complicated and burdensome. Many organizations hire external consultants to help prepare their indirect cost rate proposals because the process is so complex. This can increase the costs associated with negotiating an indirect cost rate. Furthermore, organizations lacking Federal cost allocation practices may need to address systematic issues and document their processes prior to negotiating an indirect rate, thereby creating more administrative burden.

Once an organization negotiates a rate with the cognizant agency, it is required to submit annual indirect cost rate proposals at the close of each fiscal year during which it has Federal award funding, unless other written arrangements are made. Finalizing a negotiated rate includes the cognizant Federal agency potentially requesting and reviewing supporting documentation for the organization's claimed indirect costs. Comparatively, the de minimis ICR requires no documentation to justify the rate and no review of actual indirect costs. Therefore, the de minimis election can save organizations considerable time and effort compared to the preparation of an indirect cost rate proposal followed by negotiations with the cognizant Federal agency.

Timeliness and Cost Certainty: For organizations that are moving quickly to launch new projects with the Federal government, using the de minimis ICR is the fastest approach while also minimizing the under recovery of indirect costs. A negotiated rate is typically agreed to provisionally and then finalized after actual costs are incurred. This requires the organization to adjust indirect costs previously claimed based on the finalization of the negotiated rates. In contrast, the 10% de minimis ICR will not be adjusted, which means claimed costs do not change. For many organizations, removing the risk of surprises and disallowed costs – and the associated cost of litigation or expert consulting – can be well worth it. Furthermore, knowing that it is operating within a 10% indirect cost limit can motivate an organization to limit indirect costs to begin with.

What are the Disadvantages of Using the De Minimis Indirect Cost Rate?

Under recovery: Using the de minimis ICR may cause an organization to under recover its indirect costs for two reasons. First, organizations are limited to a 10% ICR even though actual costs may justify charging a higher rate. The de minimis ICR has been codified at 10% because the Federal government believes there is low risk that this rate would allow a recipient to over recover indirect costs. Many organizations with negotiated indirect rates, have rates that significantly exceed 10%. As discussed previously, the lower indirect cost recovery is partially offset by the cost savings of not preparing an indirect cost rate proposal, negotiating the rate(s), and avoiding the ongoing administrative costs of managing a negotiated rate. When using the de minimis ICR, the organization must use that same 10% rate on all its Federal awards.

Second, the Uniform Guidance mandates that any organization using the de minimis ICR must also use the modified total direct cost allocation base. Using the MTDC base — instead of other commonly used allocation bases such as total direct costs — may trigger additional under-recovery. This is because the types of costs excluded from the MTDC allocation base are the types of costs that normally require significant administrative (indirect) support. For example, the Uniform Guidance prohibits charging the 10% rate on the entire cost of a subaward, and the MTDC base must exclude the costs of capital expenditures and equipment. Both of those cost categories typically require significant administrative oversight (e.g., mandatory risk assessments, flow-down provisions, budget and performance monitoring). Therefore, organizations using the de minimis ICR do not recover the indirect costs associated with administratively intensive functions because those costs are excluded from the allocation base, by definition. Anyone using the 10% de minimis rate must accept that imbalance in cost recovery.

Finally, as noted above, if chosen, the 10% rate must be applied consistently across all the organization's Federal awards until it chooses to negotiate an indirect cost rate with the cognizant agency.